

Message Text

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ACTION EUR-12

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USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

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AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION NATO

AMEMBASSY VIENNA

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

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E.O. 11652: N/A

TAGS: ECON, PO

SUBJ: NATIONALIZATION OF BASIC INDUSTRIES

1. PLENARY SESSION OF COUNCIL OF MINISTERS PRODUCED PRESS RELEASE IN WEE HOURS OF APRIL 16 ANNOUNCING MAJOR ECONOMIC DECISIONS: PROGRAM TO CONTROL BASIC INDUSTRIES (DISCUSSED THIS TEL); STABILIZATION OF PRICES OF ESSENTIAL GOODS (SEPTTEL); FORMULATION OF BASES OF NATIONAL EMPLOYMENT PROGRAM (SEPTTEL); AND AGRARIAN REFORM MEASURES (SEPTTEL).

2. PROGRAM OF CONTROL OF BASIC INDUSTRIES CONSISTS OF TWO PARTS: ONE IS IMMEDIATE NATIONALIZATION OF VARIOUS PORTUGUESE ENTERPRISES; THE OTHER IS TO STUDY APPLYING MEASURES, INCLUDING NATIONALIZATION, TO STILL OTHER ENTERPRISES. COMPENSATION IS NOT MENTIONED.

3. ENTERPRISES NATIONALIZED IMMEDIATELY ARE AS FOLLOWS:

A. ELECTRICITY PRODUCING AND DISTRIBUTING COMPANIES (14 FIRMS);

B. PETROLEUM INDUSTRY (FOUR NATIONAL FIRMS, ONE OF WHICH IS A SUBSIDIARY OF ANOTHER). OPERATIONS COVER BOTH REFINING AND DISTRIBUTION;

C. RAILWAY COMPANY;

D. MARITIME NAVIGATION COMPANIES (THREE FIRMS, ONE OF WHICH IS FOR OIL TRANSPORT);

E. AIRLINES (NATIONAL CARRIER TAP);

F. STEEL INDUSTRY (ONE FIRM).

4. THOSE ENTERPRISES (MOST OF WHICH ARE MONOPOLIES OR OLIGOPOLIES) SLATED FOR FUTURE STATE INTERVENTION ARE: MINING, TOBACCO, BEER, CELULOSE, FERTILIZER, CEMENT, HEAVY MACHINERY, PETROCHEMICALS, NAVAL CONSTRUCTION, SODIUM AND CHLORINATED PRODUCTS, AND PHARMACEUTICALS.

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5. IN ADDITION CRITICAL EXAMINATION IS TO BE MADE OF PETROLEUM OFF-SHORE PROSPECTING POLICY. THE COMMUNIQUE STATES, HOWEVER, THAT THE GOP WILL HONOR EXISTING CONTRACTS MADE WITH FOREIGN FIRMS IN THEIR ENTIRETY ALTHOUGH MUTUALLY AGREED REVISIONS ARE NOT RULED OUT.

6. COMMENT:

A. THE NATIONALIZATIONS IMMEDIATELY EFFECTED DO NOT GREATLY CHANGE THE STATUS QUO ANTE. ALMOST ALL OF THESE COMPANIES WERE EITHER DE FACTO GOVERNMENT ENTERPRISES (E.G., PORTUGUESE ELECTRIC COMPANY, TAP) OR HAD LARGE ENOUGH GOVERNMENT PARTICIPATION TO ASSURE GOVERNMENT'S POLICY CONTROL (E.G., PETROLEUM COMPANIES, RAILWAYS). THE NATIONALIZATION OF THE STEEL INDUSTRY HAS BEEN IN THE OFFING FOR MONTHS.

B. OF GREATER INTEREST IS THE GOVERNMENT'S INTENTION TO INCREASE ITS CONTROL OVER THE ENTERPRISES SPECIFIED IN PARAGRAPH 4. AS MINISTER OF INDUSTRY CRAVINHO SAYS IN A STATEMENT CLARIFYING THE COMMUNIQUE, THE GOP BASIC INDUSTRIES PROGRAM WILL TO A LARGE EXTENT DEFINE THE PUBLIC AND PRIVATE SECTORS. IT IS CLEAR THAT THE PRIVATE SECTOR IS GOING TO BE MUCH MORE NARROWLY DEFINED THAN BEFORE AND WILL PLAY A SUBORDINATE ROLE.

C. IT IS IMPORTANT TO NOTE THAT THE GOP REAFFIRMS ITS INTENTIONS TO HONOR COMMITMENTS TO FOREIGN ENTITIES. EVIDENCE IS FOUND NOT ONLY IN THE COMMUNIQUE'S ASSURANCES TO THE OIL PROSPECTING COMPANIES BUT IN A CRAVINHO STATEMENT TO THE EFFECT THAT THE 25 PERCENT FOREIGN INTEREST IN THE NEWLY NATIONALIZED TANKER COMPANY (SAPONATA) WILL NOT BE TOUCHED. SUCH ASSURANCES ARE LIKELY TO BE FOUND HOLLOW BY FOREIGN INVESTORS IN VIEW OF GOP NATIONALIZATIONS.

D. THIS NEW BASIC INDUSTRY PROGRAM, WHICH COMES HARD ON THE HEELS OF THE BANK AND INSURANCE NATIONALIZATIONS, ESTABLISHES THE GOVERNMENT MORE FIRMLY ON THE "COMMANDING HEIGHTS" OF THE ECONOMY. TIMING THE ANNOUNCEMENT OF THESE ECONOMIC MEASURES BEFORE THE ELECTION IS PROBABLY NO ACCIDENT AS THEY GIVE THE ELECTORATE THE IMPRESSION OF A GOVERNMENT FIRMLY IN CONTROL AND CAPABLE OF TAKING DECISIVE ACTION.

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